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Microfinance Programs as a Means of Alleviating Poverty: Lessons from MFIs in Newly Industrialized Countries

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Abstract

The history of modern microfinance activities can be traced back to 1976, when Muhammad Yunus set up the Grameen Bank as a project of assisting poor women to access credit for income generating activities in Bangladesh. Since then several microfinance institutions modeled on the Grameen Bank have been developed and implemented in reaching majority of the unbanked poor population in many countries around the globe. Microfinance is now being considered by many countries and governments as one of the most important and effective strategies of poverty alleviation. Among the beneficiaries of micro financing are women Microfinance has enabled them to be self employed thus improving their security, autonomy, self confidence and status within the household. This study examines microfinance as a poverty alleviation strategy. Lessons from microfinance institutions in Kenya reveal that microfinance has provided poor people in Kenya especially women with an opportunity to engage in income generating activities.

Keywords: Poverty, micro-finance, micro-credit, development, investments, interest.

1.0 Introduction

Poverty is not an easy concept to define. As a result a range of definitions exists, influenced by different disciplinary approaches and ideologies (Handley, Higgins and Sharma, 2009). The dominant Western definition since World War II defined poverty in monetary terms using levels of income /consumption to measure poverty. Grunsky and Kanbur (2006) defined poverty by head count of those who fall below a given income/consumption level of poverty line.

However this economic definition has been contemplated in recent years by other approaches that define poverty in multi-dimensional way (Handley, Higgins and Sharma, 2009). These approaches include basic needs approach, capabilities approach, and human development approach. Their acceptance is reflected in the widespread use of United Nations Development programs (UNDP) Human index which is a composite measure of human development in terms of: i) life expectancy ii) educational attainment iii) standards of living measured by income in terms of the purchasing power parity, UNDP (2006).

For our purpose, poverty is defined by a sense of helplessness, dependence, and lack of opportunities, self-confidence and lack of self-respect on the part of the poor (Narayan et.al, 2000). Indeed the poor see powerlessness, voicelessness as key aspect of their poverty. One potential solution to address poverty that has been increasing in popularity, and controversy, in recent years is the area of microfinance. However, despite the increased popularity, what is the record of such programs? Furthermore, what is the impact of such programs on reducing poverty? Finally, what are the predominant methodological approaches in the microfinance literature?

Programs instituted throughout the World continue to increase formal investigation into the effectiveness of such programs is important. Examples of some of the programs include the Grameen Bank in Bangladesh, which is a formal and independent financial institution targeting the poor with the goal of lending primarily to women. Since its inception Grameen Bank has experience high growth rates and now has more than 5.5 million members; with more than 95% of them being women (Sengupta and Aubuchon, 2006).

Banco Solidario in Bolivia is yet another example which originally existed as Fundacion Para Promotion yel Desarrollo (PRODEM) as a non-governmental organization in mid to late 1980s. It provided small capital loans to groups of three or more people dedicated to entrepreneurial activities. By 1992 PRODEM serviced 17,000 clients and disbursed funds totaling to $4 million. Constrained by legal and financial regulations governing NGOs, the board of directors decided to expand their services and PRODEM became a commercial bank now Banco Solidario (Sol). Banco Sol has 48 branches in over seventeen cities and over 110,000 clients and a loan portfolio of more than $ 172 million (ibid).

Good Faith fund in USA was modeled after Grameen Bank and was the first MFI to be established in America. The initial program was started as Grameen Fund but the name was changed to better reflect the funds commitment to providing loans to micro-entrepreneurs. Loans were scrutinized on Good faith (Yunus (2003). Good Faith relied on innovation and change to apply micro lending to the rural economy of Arkansas. Taub (2000) argues that Good Faith Fund is a successful poverty alleviation program but a poor economic development program.

Microfinance is playing a transformative role in the developing economies as regards poverty alleviation today. This is evidenced by the World Bank which estimates that about 160 million people in developing countries are being served successfully by Microfinance Institutions *(http://web.worldbank.org)*

In this paper, we will provide evidence from the existing literature on microfinance to show the current performance record of such programs and the impact of such programs on reducing poverty. Furthermore, we will discuss some criticisms of the microfinance approach to eradicating poverty. We will draw several conclusions on the appropriateness and effectiveness of microfinance programs with reference to micro finance programs in Kenya in addressing poverty, while providing several suggestions for future research directions in this developing field.

2.0. WHAT IS MICRO FINANCE?

Microfinance has been defined as the supply of loans, savings, and other basic financial services to the poor. These financial services usually involve small amounts of money repayable in frequent small installments e.g. Small loans and small savings among others. The term "microfinance" assists in differentiating these services from those offered mostly by formal commercial banks (http://cgap.org).

From the Agriculture sector, farmers' lack of access to credit was identified as a main obstacle to development of impoverished rural areas, leading to establishment of sustained government lending schemes and rural cooperatives throughout developing world, Meyer (2002). However it became apparent that these endeavors were not able to overcome the screening, monitoring and enforcement problems that restrict poor people's access to formal financial sector. In most cases, the poor were not reached nor were the institutions financially sustainable. Experimentation in the1970s in Bangladesh with community development models (the Commilla model) is a case in point.

Only isolated success was achieved due to model's disregard to diversity of village social structure and the cooperation of inputs and institutions by rich farmer's (Chowdhury, 2003). To confront the problems inherent in lending to the poor, there has been large scale innovation in the provision of financial services over the past three decades. Generally this new system has been called micro credit (provision of small scale loans to poor) and more recently micro finance (Narayan et al., 2000).

In the developing World, innovation in micro financial services has been demonstrated through credit focus and peer monitoring model targeted at the poor based largely on Grameen Bank model of Bangladesh. However, new models have emerged that represent important adaption of the Grameen bank and aiming at the low income and marginalized communities in Asia, Africa, and America.

Micro finance providers often known as Micro Finance Institutions (MFIs) are mostly Non-Governmental Organizations driven. A number of government sponsored Microfinance programs involved in micro lending and institutions that act as intermediaries between banks and borrowers have also been established. These non-poor for poor programs take a variety of approaches to provision of credit and to varying extent other financial services (Copestake et.al, 2005). Furthermore, different types and amounts of non-financial inputs from skills training and marketing for organizations support, health and education are also provided by many MFIs in accordance with their particular goals.

Poverty alleviation or eradication is an ultimate goal of most MFIs with either direct or indirect links to immediate objectives. Objectives are in turn determined by organizational ideological outlook, in particular how the organization perceive the relationship between poverty alleviation and access to credit.

If financial liquidity problems are seen to be central reason for poverty as perceived by Yunus, the organization will more or less confine its role to the provision of credit. This is called minimalist approach. These organizations tend to evaluate their success in terms of financial indicators of outreach and repayment, although considerations of impact are not known. If on the other hand poverty is viewed as a result of a more complex process involving liquidity problems as well as other factors the organizations objectives will tend to incorporate the provision of a larger range of financial, economic, social and organization interventions. This has been called credit plus approach.

2.1. Micro finance is it an alternative to informal exploitative source of finance?

The spread of microfinance and the success of MFIs in various countries around the World lead to the question: Who served the poor before the micro-credit revolution? It is well known that conventional banks, which act as creditors to most entrepreneurial activity in the modern World, have avoided lending to the poor. Instead, credit to the poor has been provided mostly by local Moneylenders, often at usurious rates (Grunsky and Kanbur, 2006). Consequently moneylenders are typically perceived as being exploitative, taking advantage of the poor who have no other recourse to loans. Hence it is not surprising that microfinance has been welcomed by most as a better alternative to informal moneylenders. Commercial banks have not been quick in meeting this need. Several reasons have been advanced for this reluctance (Sengupta and Aubuchan 2006).

First, it was perceived that the poor borrow mostly to finance consumption needs which are not a priority to banks. Second, even if loans could be earmarked for investment purposes, commercial banks would find it difficult to lend due to lack of credit histories and documented records on small entrepreneurs/farmers - which makes it difficult for the banks to assess the creditworthiness of the borrower.

Finally, the inability of the poor to post collateral on the loans reduces the bank's recourse to a saleable asset once the borrower defaults on the loan. Hence commercial banks have tended to avoid lending to the poor leaving the field to the informal moneylenders. Though they appear to have a monopolistic environment, moneylenders face similar challenges as commercial banks in identifying risky borrowers and securing collateral, particularly in poor rural areas.

In contrast, Sengupta and Aubuchan (2006) argues that MFIs can often offer lower interest rates than local moneylenders; because of their higher efficiency in screening and monitoring borrowers, economy of scale (serving more borrowers) and their use of joint liability lending mechanisms. This lowers the MFI's cost of lending relative to that of the local moneylender. To the extent that MFIs can provide loans at a lower rate than moneylenders, enabling more and more borrowers to enter the credit market. The key elements of MFIs being both the efficiency (due to reduced cost of funds), and welfare enhancement (because of an increase in the borrower pool).

2.2 Repayment rates for MFIs: Are they high or low?

Loan rates of repayment have been one of the major factors affecting performance of microfinance. Many MFIs however, report high rates of repayment, often greater than 90 percent. Furthermore, these repayment rates are widely popular and have been one of the reasons for the recent interest generated by micro-finance in financial markets Worldwide (Business Week, July 9-16, 2007; Wall Street Journal, September 23, 2007). These claims have driven considerable academic interest in the 'why and how' microfinance works. Although the theories of joint liability contracts, progressive lending, frequent repayments, and flexible collateral adequately explain these high rates of repayment, Murdoch (2000) raises the important issue of validation. An important consideration here is that MFIs are known to charge considerably higher rates compared with similar loans from conventional banks.

In their work, Stiglitz and Weiss (1981) showed that the high interest rate that a lender charges may itself adversely affect repayment rates by either discouraging creditworthy borrowers (adverse selection) or tempting the borrowers to opt for riskier projects (moral hazard). Consequently, the coexistence of high repayment rates (around 95 percent) and higher interest rates (a 30 to 60 percent interest rate is common) in microfinance has "puzzled" economists.

One explanation offered by some economists is that MFIs face an inelastic demand for loans. In a recent empirical study on the Safe Save Program in Dhaka slums, (Dehejia, Montgomery, and Murdoch, 2005) show that the elasticity of demand for microcredit may be significantly negative even though certain groups of borrowers (particularly the wealthier ones) do not reduce their demand when faced with higher interest rates.

However, Emran, Morshed, and Stiglitz (2006) examined the implications of missing or imperfect labor markets for poor women in developing countries (the typical customers of MFIs in Bangladesh). They demonstrated the critical role played by the structure of the labor market in making the small-scale household-based investment projects 'credit worthy' in the face of very high interest rates; especially for the poor households with little or no collaterizable assets.

2.3 Models of Lending

The success of microfinance in generating high repayment rates led many economists to investigate the reasons behind this success. The mid-to-late 1990s witnessed a large increase in the number of journal articles on group lending contracts, as economists sought to explain how micro-finance "succeeded" where traditional forms of lending had failed. The growth of the literature on group lending contracts in the mid-1990s offers the impression that all MFIs operate as such, but the reality is that MFIs use a variety of lending techniques, such as dynamic and progressive loans, frequent repayment schedules, and nontraditional collateral to ensure high repayment rates among poor, underserved borrowers. These mechanisms were either introduced independently or in conjunction with joint liability programs such as Grameen have and in many cases operate alongside group contracts, (Sengupta and Aubuchon 2006).

Practitioners have now realized that these mechanisms can operate with individual contracts and in certain cases (e.g., in areas of low population density) offer better repayment results than group lending schemes. The mechanism of progressive lending guards against the borrower's strategic default at the end of a loan cycle, because by definition he/she has little or no collateral to be seized in the event of default.

Another mechanism used by MFIs is that of frequent repayments, which often begin even the week after the loan is disbursed. By requiring small repayments before the business venture has reached maturity, MFIs require that borrowers have a second source of income and, therefore, borrow against their current consumption. This allows MFIs to screen against high-risk borrowers from the beginning because borrowers will be able to repay the loan even if their venture fails. Weekly repayments give the borrowers and lenders the added benefit of discovering problems early. Armendáriz de Aghion and Murdoch (2005) also suggest that frequent repayments provide better customer service, contrary to the belief that more repayments raise the transaction costs for the borrower by requiring more travel to and from payment centers.

Instead, frequent repayments help borrowers with savings constraints such as seasonality of income, family members dropping by to borrow funds, or discretionary spending by one or more of the family members. In terms of poverty alleviation, Murdoch (2005) suggests that MFIs should focus on the poorest borrowers first, but this is not always. If MFIs successfully serve poor clients, those clients should be able to use their loans to lift themselves out of poverty. Because of the nature of progressive and dynamic loans successful borrowers earn access to larger loans helping them break free of poverty even faster (Sengupta and Aubuchon, 2006). Grameen Bank uses their economy of scale to create financially independent bank without raising interest rates. Impact studies reveal that the most commonly used model is the joint liability model (Group lending).

2.4 Is micro finance sustainable or profitable?

For success in any venture profitability and sustainability are key watch words. In microfinance however, arguments have been raised that an excessive concern for profit in microfinance will lead MFIs away from poor clients to serve better-off clients who want larger loans. Though it may be true that programs serving very poor clients are somewhat less profitable than those reaching better-off clients, some MFIs serving the very poor are showing rapid financial improvement. Programs like Bangladesh Rural Advancement Committee and ASA in Bangladesh have already demonstrated that very poor clients can be reached profitably; both institutions had profits of more than 4% of assets in 2000. There are cases however, where microfinance cannot be made profitable. These are situations where potential clients are extremely poor and risk-averse or live in rural areas where there is very low population density, often scattered over a wide geographical area. *(http://www.cgap.org/about/faq)*.

Empirical studies have shown that not all micro-finance programs are sustainable or profitable. Despite rapid growth and sound operations based on strong theoretical platform, such as using group loans dynamic incentives and repayment, less than 50% of all MFIs return a profit and most still require help of donors and subsidies. Micro banking bulletin (2008), surveyed 124 MFIs with a stated commitment to becoming financially stable. Only 66 operations were sustainable. Armendáriz de Aghion and Morduch (2005) noted that all the 124 programs asked for help in managing their accounting standards. Similarly sustainable data do not exist for another 200 and above micro finance programs. They further argue that without strong commitment to financial sustainability the percent of sustainable operations is likely to be lower than 50 percent.

2.5 Changes that can be attributed to the micro finance intervention

Focus on women stems from Prof. Yunus conviction that lending to women has a stronger effect on the welfare of the household than lending to men. Pitt and Khandker (2000), show that loans to women have a positive effect on outcomes such as children education, contraceptive use, and value of women non land assets.

Khandker (2005) further noted that borrowing by a woman has a greater impact on per capita house hold expenditure on both food and non-foods items than borrowing by man. This also improves nutrition, health care, education opportunities for the children in these households, a pro-female bias in lending works well for MFIs because many believe that women tend to be risk averse, in their investment choices, more fearful of social sanctions and less mobile than men; therefore easier to monitor, Sengupta and Aubuchon (2006). Various studies from Asia, Latin America and Africa (Kibas, 2005) have shown that repayment rates are significantly higher for female borrowers compared to their male counterparts.

However, critics have argued that micro finance has done little to change the status of women within households. Goetz and Gupta (1996) point out that it is not women borrowers who exercise control over borrowings. Sengupta and Aubuchon (2006) argue that micro-finance does little to transform status in terms of occupational choices, mobility and social status within the family. Therefore, micro-finance hardly empowers women in any meaningful sense. Though this may be the case it cannot be denied that micro-finance has provided unrealized working opportunities for women with limited skills in traditional activities.

3.0 STUDIES DONE ON THE IMPACT OF MICRO FINANCE INSTITUTIONS

3.1 Self-sufficiency and sustainability of MFIs

"Micro-finance (and Micro Credit) is an important institutional device for alleviating poverty of the poor people. Since its inception, there has been tremendous growth of MFIs in this field to deal with the micro finance/credit issues. Despite this, the poverty situation of the poor people who have already used the micro-finance programs was not improved substantially. The few MFIs have their own programs to conduct survey on impact assessment of their individual micro credit activities, Shamsudhaha and Azad (2004).

Unlike formal sector financial institutions majority of MFIs are not sustainable, where sustainability is equated with financial self-sufficiency (Brau and Wollen, 2004). Most MFIs are able to operate without covering their costs due to subsidies and gifts from the government and other donors. Notwithstanding, micro-finance industry is dominated by institutions paradigm, Morduch (2005). In their analysis of failed rural credit agencies established by the government, Gonzalez and Vega (2000) diagnosed the primary cause of failure to be lack of Institutional viability. The diagnosis led to two principal conclusions: Institutional sustainability was key to successful provision of financial services to the poor and financial self-sufficiency was necessary condition for institutional sustainability.

Nonetheless, what little evidence exists suggests that those MFIs that have achieved true financial self-sufficiency have also tended to lend to borrowers who were slightly above or slightly below the poverty line in their respective countries, (Navajas et al. 2000)

3.2 Micro finance institution products and services

MFIs provide similar products and services to their customers as formal sector financial institutions. The scale and delivery vary, but the fundamental services of savings, loans and insurance are the same, (Brau and Woller, 2004). Notwithstanding to date most efforts to formalize micro finance have focused on loans for enterprise formation and development which remains by far the dominant product offered by MFIs (Nourse 2001, Woller 2002). Today MFIs have begun to offer additional products such as savings, consumption or emergency loans, insurance, business education (Brau and Woller, 2004). Nourse (2001) reviews the context and rise of micro-finance products and argues that there is need for savings and insurance services for the poor and not just credit products. Nourse further suggests that MFIs need to provide tailor-made lending services for the poor instead of rigid loan products. Similarly Woller (2002), Cohen(2002) and Dunn (2002) argue that MFIs need to be more client focused including offering a mix of financial products tailored to the varied need and wants of very poor consumers.

3.4 Best Practices in Micro Finance Management

Best practices in microfinance management include: client targeting and selection, loan policies, poverty alleviation strategy, Impact of micro finance institution on poverty, Image and Philosophy use of a robust Management Information System among others (Karimi and Maru, 2003).

3.4.1 Client targeting and selection:

There are two primary issues in client targeting 1) gender targeting and 2) poverty targeting (lending to the very poor and poor *vs.* lending to marginally poor and non-poor.

Gender targeting: Many MFIs target primarily women based on the common belief that women invest loans in productive activities or improving family welfare more than men who are assumed to consume rather than invest loan funds Brau and Woller (2004). Pitt et. al. (2000) use empirical data from Bangladesh over a period of 10 years to test the hypothesis that women use borrowed finds more effectively than men.

They use house hold expenditure, non-land assets held by men, male and female labor supply and boys and girls schooling as measurement outcomes. The authors found out that although the availability of micro-finance positively impacts on all the six areas in aggregate, all areas are significantly affected when women borrow but only one of the six is significantly affected when men borrow. They conclude that women use borrowed funds better than men in Bangladesh. On the other hand Kevan and Wydick (2001) used a sample of 342 MFI participants in Guatemala to analyze the assertion that male borrowers produce more economic growth than women and those women facilitate more poverty alleviation. They found no significant differences between men and women in generating business sales and a small advantage of employment generation by man, relative to women.

Very poor vs. marginally poor: The most controversial and significant debates in micro-finance is whether and to what extent there exists a trade-off between finance and self-sufficiency, and the depth of outreach Brau and Woller(2004).

Integral to this debate is whether to achieve self-sufficiency, MFIs must target marginally poor or non-poor clientele so as to capture economies of scale and cover costs. Navaja et, al (2008) analyze the outreach of five Bolivarian MFIs and found that most clients were near poverty line (marginally poor). They also found that group lenders had more depth of outreach than individual lenders, urban poorest were more likely borrowers, but rural borrowers were among the poorest of all borrowers. Similarly Servon (2001) studied three MFIs and found that they served those at margin of mainstream economy, and not the very poor.

3.4.2 Micro finance as poverty alleviation strategy

According to Malice (2002) the fundamental question to motivational underpinnings of MFIs is whether it is a viable strategy for poverty alleviation relative to other poverty alleviation strategies. Adams, et. al (2002) tried to answer this question directly by comparing modern (1990s) MFIs to the failed rural credit agencies established by LDC government in the 1970s that not only did anything to advance poverty alleviation but also wasted millions dollars of public funding. The author concluded that Modern MFIs industry is destined to failure because of the similarities between the two.

Buckley (2004) discusses field summary data from Kenya, Malawi and Ghana and concludes that fundamental structural change in socio-economic conditions and deeper understanding of informal sector behavior are needed for micro-finance to prove effective. Additionally, Woller and Woodwoth (2001) argue that micro-finance constitutes a potentially viable bottom-up policy option in lieu of or as a complement to effective poverty alleviation and development policies.

Analyzing MFIs in Nepal, Bhattah (2001) concludes that due to topology and extreme poverty levels in Nepal, it will be difficult for MFIs to have any meaningful impact on poverty. Nevertheless, he goes on to suggest that MFIs should expand into the hills and mountains and target women so as to increase the probability of success. Finally, Snow and Buss (2001) studied MFIs in sub-Saharan Africa and concluded that better goal oriented assessment is needed to determine if micro finance is an effective tool for poverty alleviation.

3.4.3 Impact of micro finance institution on poverty

Published studies have assessed the impact of micro finance programs on poverty in Kenya Nelson and Kibas (1997), Bolivia, (Mosley 2001), China, (Park and Ren 2001), Thailand (Coleman 1999), Ghana and South Africa Afrane (2002), Zambia (Copestake et, al 2005) Uganda (Barness et, al 2000). The findings vary from study to study suggesting that impacts are highly contextually specific.

Analyzing four programs in Bolivia, Mosley (2001) shows that assets and incomes increased commensurate with the initial poverty levels, but that MFIs services may increase vulnerability of borrowers over leverage. Copestake et.al (2001), found that borrowers who were able to obtain two loans experienced high growth in profits and household incomes compared to a control sample, but borrowers who never qualified for the second loan were actually worse off due to MFI collection.

Using the same Guatemala data set in subsequent study, Wydick (2002) also found rapid gains of job creation after initial credit access were followed by prolonged periods of stagnant job creation. Dunn (2001) found that programs clients 'enterprises performed better than non-client enterprises in terms of profits, fixed assets and employment. Anderson et.al (2002) analyzed 147 MFIs and finds that MFI participation increased awareness and common pool resource stewardship. Mosley and Hulme study 13 MFIs in seven countries: Bolivia, Indonesia, Bangladesh, Sri Lanka, Kenya, India and Malawi; and construct an impact frontier describing the inverse relationship they find between outreach (depth of poverty reached) and impact.

4.0 APPLICABILITY OF MF IN KENYAN SCENARIO?

There is limited systematic study on impact of MFIs on poverty alleviation; attempts have revealed that there are some positive impacts upon the lives of the poor including poor women which need to be improved. Nelson and Kibas (1997) found that microcredit had contributed significantly to the clients enterprises of K-Rep, Juhudi program in rural Kenya. The following provide evidence from studies on the impact of micro finance in Kenya on the poor in terms of four poverty dimensions:

4.1 Expanding Opportunities

Access to credit and other micro-finance services are hypothesized to expand opportunities at both household and enterprise levels through increased household and enterprise income, increased fixed assets, diversifying incomes sources enhancing employment opportunities etc. Evidence suggests that only few results in these regards.

In a study carried out on performance of enterprises funded by WEF, Kiraka, Kobia and Mulengani (2012), cited some challenges of the fund include risk prone behavior of the poor, cultural bias against some non-traditional activities, etc. For a micro-finance program to be able to expand opportunities for the poor there are many practical problems such as low outreach, problem of group lending, the one size fits all terms and conditions clients low absorptive capacity, poor market infrastructure and road network which should be addressed. Getaneh and Gobizie (2004).

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4.2 Improving Capabilities

One of the objective of micro-finance programs is to help the target household to improve capacity, enhancing human capital within the household through better nutrition, education, skills acquisition, health improvement.

Studies indicate that clients were to some extent able to increase their food security situation and send their children to school. Yet micro-finance service as undertaken by women enterprise fund and other programs in Kenya leaves much to be desired to be effective in improving human capital that enables people to maintain and raise living standards as reflected in the impact related to education of the children and expenditure on food, health and nutrition. Wright (2000) notes that the use to which income is put is as important in determining poverty and welfare as the level of income itself. Increased income can be gambled away. Hashemi (1997) shows that a good deal of clients enjoyed improved food security, yet no one can tell whether such food is nutritious for the child, mother and other household members.

Apparently the majority poor being served by micro-finance has little access to such information. This fact suggests that delivery of credit and other micro-finance services in isolation leads to nowhere in terms of helping the poor improve human capital.

4.3 Poverty and Dependence

Micro-finance can reduce vulnerability by helping micro entrepreneurs diversify their sources of household income, increase their savings, expand their credit options and improve household money management, Getaneh and Gobizie (2004). It plays a protective role by helping to accumulate physical assets, increase expenditure on housing and strengthen women's role in collaborative decision making.

The potential for micro-finance service to enable clients diversify micro enterprise activities has been very limited. A survey for strategic business plan indicates that more than 78 percent of clients engage in activities they already know. According to Getaneh and Gobizie (2004) several factors dictate this outcome. First, the opportunity to engage in other alternative employment is limited. Secondly, the client being risk averse, may not want to engage in new activities which they are not familiar with even with the existence of credit facilities. Thirdly, nontraditional activities that could provide such alternative are frowned upon for cultural reasons.

Micro finance can also play big role in reducing vulnerability of the poor by availing suitable saving products and enhancing self-insurance. Rutherford (1999) says micro insurance is a powerful poverty/vulnerability reducing tool as well as a means for institution to reduce risk. However, as women enterprise fund matures and the average loan size increase, providing loans become increasingly risky. Thus, developing insurance products will help address institutional long term profitability issues and provide protection for members against large and more destabilizing shocks.

Murdoch and Harley (2002) observed that emergency loans provide solution of last resort for the poor in extremely difficult circumstances. Given that most of the poor attempt to borrow in order to finance consumption of food and other basic needs that enhance labour, productivity and health, such constraints may force poor households to eat less food or cheaper food with lower nutritive value. Also when consumption levels are precariously lower, they may be forced to cancel or postpone profitable investments or sell assets at a substantial loss to meet irreducible consumption needs. This may lead to greater impoverishment in the long run. There is no evidence of such loans as women enterprise fund.

5.0 CONCLUSION

Micro-finance has proven to be an effective and powerful tool for poverty reduction. Like many other development tool, however it has insufficiently penetrated the poor strata of the society. The poorest from the vast majority of those without access to primary health care and basic education, similarly they are the majority of those without access to micro-finance. The literature reviewed points out to several specific conclusions about the impact of MFIs on poverty reduction. Evidence shows the positive impact of MFIs on poverty reduction as it relates to the first six of the seven MDGs. There is an overwhelming amount of evidence substantiating a beneficial effect on increases in incomes and reduction in vulnerability. There are fewer studies with evidence on health, nutritional status and primary schooling attendance; but existing evidence is conclusive and positive. Despite disagreement on specific definitions of levels of poverty, there is a general consensus that micro-finance is not for everyone. Moreover entrepreneurial skills and ability are necessary to run a successful micro-enterprise and not all potential customers are equally able to take on debt. However, while these points will be true across all strata of poverty, it is assumed it will have a greater effect on the very poorest.

6.0. RECOMMENDATIONS

Some important recommendation can be drawn based on above discussions for micro-finance services to be effective in achieving its laudable objective of addressing the root cause of poverty. They include: expanding opportunities, improving capabilities, diversifying lending methodology, and reducing vulnerability.

6.1 Expanding opportunities

Increase outreach; to make advances on both fronts of reducing the rate and depth of poverty and positively contribute to meeting the target of reducing poverty towards achieving vision 2030 goals, the poor need to be helped to come out of poverty. This means delivering enough credit to the very poor in remote areas through enhancing our reach.

Appropriate terms and conditions: to be well served by credit delivery of important demands of the poor need to be met. The poor require a loan that is flexible enough in terms of repayments frequency, reflecting her unreliable market/ risky business conditions she is involved in, availability of loan on time depending on seasonality of business, diversified collateral, etc. This calls for effort on the part of micro finance programs as well as regulation, particularly the Fund.

6.2 improving capabilities

Credit with education: Delivery of credit and saving services alone cannot be a sure way out of poverty for the majority poor.

Low level capability; due to low human capital pose permanent constraint on poor's' effort for improved livelihood. Thus, initiating strategic alliance between, among others the mutually supportive but operationally separate activities of micro finance and health and other education services would allow each to do what it does best yet benefit from each other's activities.

6.3 Diversifying lending methodology

Lending methodology to be diversified from group to village banking and individual lending. Group lending on one hand ignores the very poor, and on the other hand it has no room for those who can borrow on individual basis.

6.3.1Rural infrastructure: Particularly road network needs special attention by government and others for healthy micro-finance operations. Given that the poor are largely involved in few enterprises, the risk is high if similar products cater for only a small market which easily saturates diminishing potential profitability. Relevant market information and networks are also vital.

6.4.0 Reducing vulnerability

6.4.1 Micro saving mobilization: The poor cannot be served well by mere delivery of credit. Saving services constitute an important part of the demand for the poor. Evidence in most cases indicates that most poor people want to save most of the time, while they do not want to borrow. More efforts are required in this sector both help the poor guard against vulnerability as well as mobilize enough savings which can be injected back to the economic activities.

6.4.2 Insurance products: With due emphasis for the technicalities, insurance products would also serve many poor and disadvantaged people.

6.4.3 Emergency loan: Emergency loan is not a bad proposal, particularly serious and hard conditions, such arrangements may rescue the poor from eating less or cheaper food with lower nutritional value, cancel or post pone profitable investments or sell valuable assets at substantial and permanent lose.

6.5.0 *Empowering women:* Efforts on women attitudes, skills labour, saving technology**.**

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